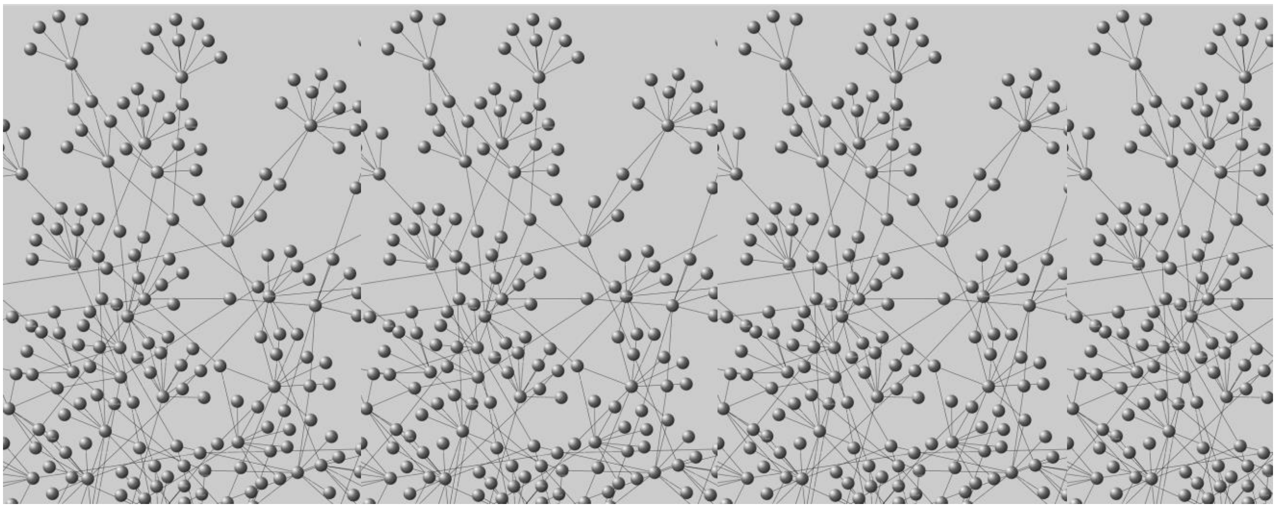
THE UNIVERSITY OF SYDNEY

Gender participation and influence in corporate governance networks

Vietnam



Corporate governance involves efforts to ensure that corporate objectives are met, and that the interests of shareholders and other corporate stakeholders are upheld. Given the significant accountability of corporate boards for the management and control of capital, studies have explored the implications of board composition and diversity on outcomes such as risk, decision-making, corporate social responsibility practices, and firm performance, among others. Strong boards are also seen to exert significant influence on corporate culture and organisational management practices. In light of the size and scope of some of the largest corporations in the world, the influence of corporate boards on the domestic and interconnected global economy cannot be underestimated.

Principles of corporate governance

Historically guided by regulatory frameworks, and heavily influenced by cultural norms and social expectations, corporate governance philosophies, policies and practices differ across countries. Globalisation pressures along with the devastating effects of major economic crises and corporate scandals, however, have prompted efforts to increase the transparency of corporate governance practices, raise the level of accountability of corporate boards, and standardise governance principles around the world. In spite of these early efforts, cross-country differences remain and there continues to be significant opportunity to further understand the nature and impact of these differences in the areas of theory, policy, and practice.

The task of governance lies with the company's board, composed of both shareholder representatives and independent directors. One important point of difference in governance practices across countries pertains to how boards are structured.

Countries such as Australia and the United States adopt a **sole board structure** (where the responsibilities of both management and control are undertaken by a single corporate board). Others such as Germany and the Netherlands adopt a **dual board structure** (where the control function is undertaken by a supervisory board alongside a separately constituted management board). A third group of countries (including France and Switzerland) adopt a **mixed board structure**, combining elements of the sole- and dual-structure varieties.

In countries with mixed board structures, the corporate governance regulatory framework typically allows companies the option to adopt either a sole or dual structure. This decision may be driven by company-specific circumstances and/or industry practice.

The case of Vietnam

Reflecting its European influences, corporate governance in Vietnam is characterised by mixed board structures. Some companies in the country opt to have a supervisory board that is separate to a management board, while others establish a single board tasked with both control and management functions.

The history of corporate governance regulation in Vietnam is fairly short, beginning with the introduction of the Law on Enterprise 2005, which was implemented in 2006 and subsequently revised in 2014. The original 2005 legislation required joint stock companies to have a dual board structure. However, the 2014 revision has allowed firms the choice between a sole or dual board structure. Given that this is fairly recent legislative amendment, it can be expected that most joint stock companies in Vietnam continue to maintain a dual board structure.

Other regulations that form the framework for corporate governance in the country are the Law of Securities 2006, the Corporate Governance Code 2007 (subsequently revised in 2012), the Disclosure Rule 2012, and the respective listing rules of the Ho Chi Minh and Hanoi stock exchanges.

Vietnam's top 100 corporate boards

To characterise the typical composition of corporate boards in the country, data from Vietnam's top 100 companies was analysed. The companies represent the largest publicly traded corporations ranked according to 2015 market capitalisation. There are 21 industries represented among the top 100 corporations, with the five largest industry groups being real estate (14 companies), capital goods (12 companies), food, beverage and tobacco (10 companies), materials (10 companies), and transportation (10 companies). Data shows that there are 689 supervisory board seats occupied by 628 different individuals in the top 100 corporations of the country. A company typically appoints seven directors to its board, with the smallest board composed of three directors and the largest composed of 12 directors.

Gender participation in supervisory boards

Of all the board seats of the top 100 corporations, only 130 (or around 19%) are women. On average, women tend to comprise around 20% of the supervisory boards of individual companies. Notably, however, 34% of the companies have boards that are composed only of men. While this proportion is lower compared to some other Southeast Asian countries, there remains significant opportunity for companies to increase gender participation and reap the benefits of greater gender balance in corporate boards in the country.

Industry differences

The data further shows that there are industry differences in gender participation on corporate boards. The industries with the highest proportion of women on supervisory boards are consumer services (where women occupy around 45% of board seats), fertilisers (40%), and media (40%).

By contrast, women occupy only 7% of supervisory board seats in the energy sector, 11% of seats in the utilities sector, and 12% of all supervisory board positions in the diversified financials sector.

Corporate governance networks

Previous studies elsewhere have shown that companies tend to share common directors, resulting in interlocking boards. The data shows that in Vietnam, the corporate governance network of the top 100 corporations is relatively fragmented: there are 43 individual companies whose boards are completely disconnected from any other board, while the remaining 57 companies form 17 separate smaller clusters of interlocked boards.

The smaller clusters are typically composed of two to three companies, which are connected by one or two common directors. Whilst there is one large cluster of 11 connected companies, the corporate governance of the country is largely characterised by a high degree of fragmentation.

Connectedness and 'betweenness'

The formation of corporate governance networks can be attributed to directors who sit on multiple boards. The number of boards on which an individual sits (i.e. a director's connectedness) is a key indicator of power and influence within the network. From a theoretical perspective, greater connectedness implies greater importance in terms the role of keeping the network together.

Within the specific context of corporate governance, greater connectedness also points to more opportunities to control greater amounts of capital. This signifies importance of a different, but equally crucial kind.

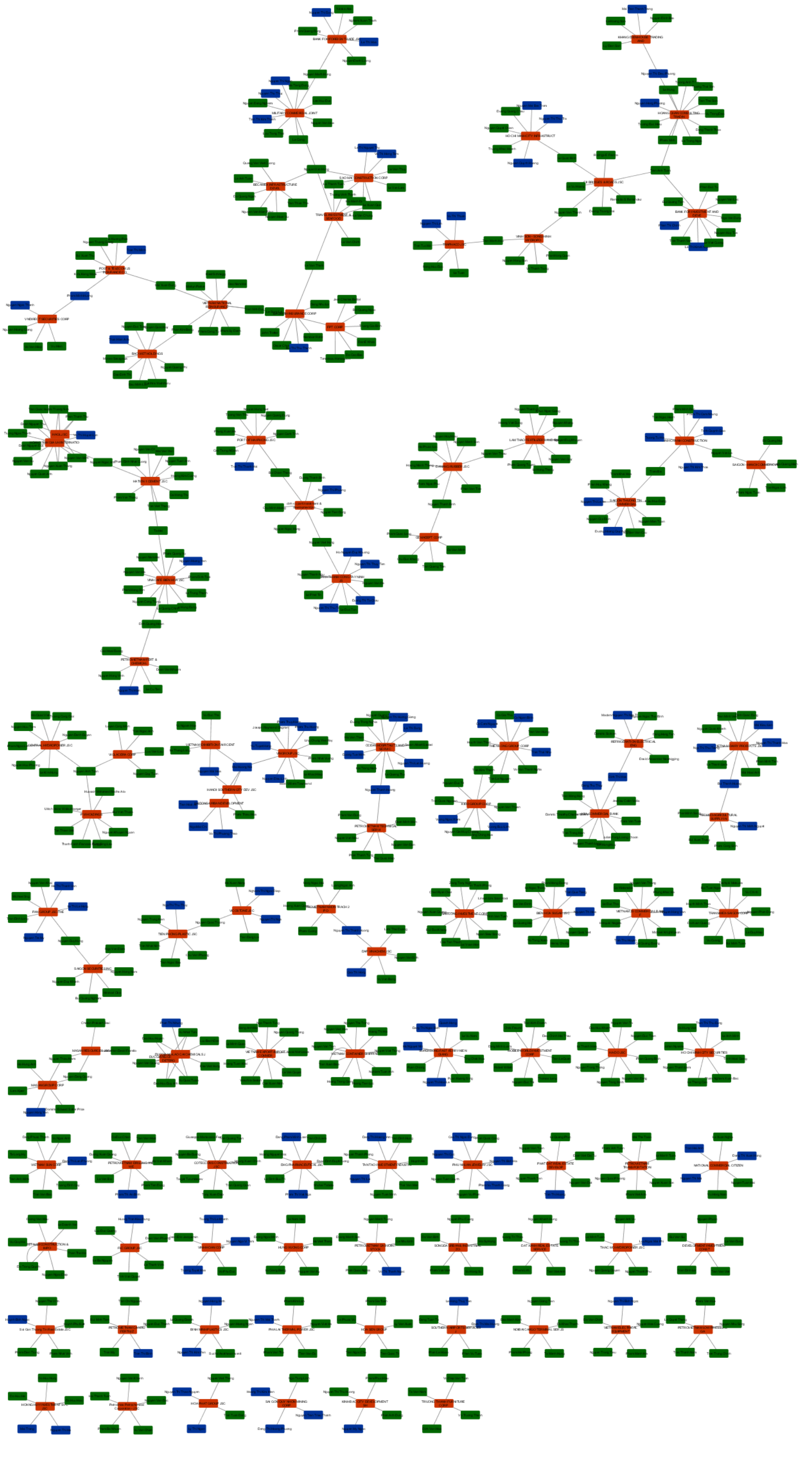


Image: 2015 board interlocks in Vietnam (where blue boxes are women directors)

The data shows that in Vietnam, around 9% of the corporate directors (a total of 54 individuals) sit on at least two boards. Of these most connected directors, only nine (or around 17%) are women. Men generally occupy the most connected positions in the network: the most connected male director sits on four boards, and there are 44 men who are members of between two and three boards. There are eight women who sit on two board seats, but no woman holds three directorships. However, it is interesting to note that the most connected woman in the network holds four directorships, which is exactly at par with the most connected male director.

An alternate indicator of network importance pertains to the ability of an individual director to connect two or more companies that would not have otherwise had a connection (that is, a director's 'betweenness'). Greater 'betweenness' implies a greater ability to both gain access to and control information flows in the network. A ranking of all the directors in the network according to their 'betweenness' scores notably reveals that two of the five most influential directors in the network are women.

The significant conclusion is that whilst women may occupy a minority of board positions in the country, the most influential women in the network possess a level of network power that is generally at par with the most influential men.

Implications

The relatively fragmented nature of Vietnam's corporate governance structure has important implications on the vulnerability of the corporate sector to crises. There are also significant implications on the way in which information flows through the network.

On the one hand, the disadvantages of network fragmentation include a tendency for the sector to experience greater information asymmetry, slow information flows, and thus slower crisis detection and response. This is in contrast to highly connected corporate governance networks, which are associated with rapid information flows, and the faster diffusion of organisational practices across companies in the network.

On the other hand, there are advantages associated with more fragmented corporate governance networks. These include the possibility of greater board independence and the potentially slower onset of crisis contagion.

An important strategy for sectoral reform with regard to gender equality in the workplace would be to initiate change at the largest and most connected cluster of companies, specifically eliciting the support of directors that have the highest levels of connectedness and 'betweenness'. It is particularly important to harness the most influential women in the country's corporate governance network.

While the analysis shows that women occupy influential network positions, the data also clearly points to significant opportunities to increase the participation of women in supervisory board membership in the country. Previous studies elsewhere have found higher levels of gender diversity at the board level to have positive effects on stock value and profitability, among others. This may be attributed to improvements in decision-making processes as a result of the board having a more diverse set of skills, experiences and perspectives to draw upon.

As in the case of other Southeast Asian countries, Vietnam's corporate sector must proactively put in place measures to increase gender participation in order to reap its benefits, while continuing on its path of corporate governance regulation reform and enforcement.

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